

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Lebanon Township	County Clinton
Fiscal Year End 3/31/06	Opinion Date 9/5/06	Date Audit Report Submitted to State 9/18/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

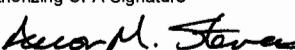
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	N/A		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836		
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 	Printed Name Aaron M. Stevens		License Number 1101024055	

**Township of Lebanon
Clinton County, Michigan**

FINANCIAL STATEMENTS

March 31, 2006

Township of Lebanon
Clinton County, Michigan
March 31, 2006
BOARD OF TRUSTEES

Gregory Armbrustmacher	Supervisor
Steven Thelen	Clerk
Michael Klein	Treasurer
David Piggott	Trustee
Gene Sanborn	Trustee

Township of Lebanon

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Lebanon
Clinton County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Township of Lebanon, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Township of Lebanon, Michigan as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 5, 2006

BASIC FINANCIAL STATEMENTS

Township of Lebanon
STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 108,830
Investments	37,307
Receivables	<u>1,580</u>
Total current assets	147,717
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>7,680</u>
TOTAL ASSETS	155,397
LIABILITIES	<u>-</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,680
Unrestricted	<u>147,717</u>
TOTAL NET ASSETS	<u><u>\$ 155,397</u></u>

See accompanying notes to financial statements.

Township of Lebanon
STATEMENT OF ACTIVITIES
Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	
Governmental activities				
General government	\$ 40,767	\$ 11,288	\$ 9,600	\$ (19,879)
Public safety	12,500	3,547	-	(8,953)
Public works	43,437	-	-	(43,437)
Health and welfare	1,750	1,900	-	150
Other	7,242	-	-	(7,242)
Total governmental activities	<u>\$ 105,696</u>	<u>\$ 16,735</u>	<u>\$ 9,600</u>	(79,361)
General revenues:				
Property taxes				59,250
State shared revenue				47,417
Investment earnings				1,327
Other				435
Total general revenues				<u>108,429</u>
Change in net assets				29,068
Net assets, beginning of the year				<u>126,329</u>
Net assets, end of the year				<u>\$ 155,397</u>

See accompanying notes to financial statements.

Township of Lebanon
GOVERNMENTAL FUND BALANCE SHEET
March 31, 2006

	<u>General</u>
ASSETS	
Cash	\$ 108,830
Investments	37,307
Taxes receivable	<u>1,580</u>
TOTAL ASSETS	<u><u>\$ 147,717</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ -
FUND BALANCE	
Designated for:	
Cemetery care	3,124
Road improvements	38,414
Unreserved - undesignated	<u>106,179</u>
TOTAL FUND BALANCE	<u>147,717</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 147,717</u></u>

See accompanying notes to financial statements.

Township of Lebanon

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Total fund balance - governmental fund \$ 147,717

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 9,600	
Accumulated depreciation is	<u>(1,920)</u>	
Capital assets, net		<u>7,680</u>
Net assets of governmental activities		<u><u>\$ 155,397</u></u>

See accompanying notes to financial statements.

Township of Lebanon

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUND

Year Ended March 31, 2006

	<u>General</u>
REVENUES	
Taxes	\$ 66,624
Intergovernmental	47,417
Charges for services	9,361
Interest and rents	1,327
Other	<u>435</u>
TOTAL REVENUES	125,164
EXPENDITURES	
Current	
General government	38,847
Public safety	12,500
Public works	43,437
Health and welfare	1,750
Other	<u>7,242</u>
TOTAL EXPENDITURES	<u>103,776</u>
EXCESS OF REVENUES OVER EXPENDITURES	21,388
Fund balance, beginning of year	<u>126,329</u>
Fund balance, end of year	<u><u>\$ 147,717</u></u>

See accompanying notes to financial statements.

Township of Lebanon

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Net change in fund balance - governmental fund	\$ 21,388
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(1,920)
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Some items reported in the statement of activities are not available to finance expenditures of the fiscal period and therefore are not reported as revenues in the governmental funds. These activities consist of:

Capital contribution	<u>9,600</u>
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Change in net assets of governmental activities	<u>\$ 29,068</u>
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See accompanying notes to financial statements.

Township of Lebanon

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lebanon Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Clinton County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services to its residents in many areas including fire protection, roads, and ambulance service.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 30); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Township of Lebanon. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of Lebanon Township contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements).

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's only governmental fund. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

Township of Lebanon
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus - continued

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Township has elected not to follow subsequent private-sector guidance.

5. Budgets and Budgetary Accounting

The General Fund budget shown as required supplementary information to the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a functional level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between accounts within the fund or activity or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted and amended by the Township Board during the year. The amendments to the originally adopted budget were not material.

6. Cash and Investments

Cash consists of money market checking accounts. Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All certificates of deposit are stated at approximate fair value.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Property Tax

Lebanon Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

Property taxes are levied twice per year. A summer tax is levied on July 1 and a winter tax is levied on December 1. The tax levies are due September 14 and February 14, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Clinton County Treasurer on March 1 of the year following the levy. The Clinton County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for roads and bridges. For the year ended March 31, 2006, the Township levied 0.9854 mills per \$1,000 of assessed valuation for general governmental services and 1.9422 mills for roads and bridges. The total taxable value for the 2005 levy for property within the Township was \$21,086,660.

8. Capital Assets

Capital assets consist of equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation for the equipment is computed using the straight-line method over 5 years.

9. Comparative Data

Comparative data for the year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE B: CASH AND INVESTMENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, the carrying amount of the Township's deposits was \$146,137 and the bank balance was \$145,941.

Deposits of the Township are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Township. As of March 31, 2006, the Township accounts were insured by the FDIC for \$136,961 and the amount of \$8,980 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2006, the Township did not have any investments that would be subject to rating.

Interest rate risk

The Township has not adopted a policy that addresses interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Township has not adopted a policy that addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

Township of Lebanon
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

Governmental activities

	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2006</u>
Capital assets being depreciated:				
Equipment	\$ -	\$ 9,600	\$ -	\$ 9,600
Less accumulated depreciation				
Equipment	<u>-</u>	<u>(1,920)</u>	<u>-</u>	<u>(1,920)</u>
Net capital assets - governmental activities	<u>\$ -0-</u>	<u>\$ 7,680</u>	<u>\$ -0-</u>	<u>\$ 7,680</u>

Depreciation expense was charged to the general government activity on the statement of activities.

NOTE D: FUND BALANCE DESIGNATIONS

Designated fund balance indicates that portion of the fund equity which the Township has set aside for specific purposes.

The following are the fund balance designations as of March 31, 2006:

Designated for cemetery care	\$ 3,124
Designated for road improvements	<u>38,414</u>
	<u>\$ 41,538</u>

NOTE E: PENSION PLAN

Lebanon Township is the sponsor of a defined contribution retirement plan for the sole benefit of its employees. The plan was established by the Township Board and the Board reserves the right to amend and administer all provisions. Plan assets are invested in separate employee accounts with John Hancock under the provisions of Section 401(a) of the Internal Revenue Code.

A defined contribution pension plan provides pension benefits in return for services rendered, an individual account for each participant, and specifies how contributions to the individual's account are to be determined. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed, returns earned on the investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

The plan requires the employer to contribute fifteen percent of the participating employees' gross wages. The current year covered and total payroll was \$27,100. Employer contributions for the year ended March 31, 2006 were \$4,065. Fees associated with administering the plan were \$484.

Township of Lebanon
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE F: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan, with other municipalities for various risks of loss including employer's liability, wrongful acts liability, governmental medical liability, employee benefits liability, cemetery professional liability, and auto liability. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The Township also participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities to minimize risk of loss due to workers' compensation claims.

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedule, the Township's budgeted expenditures in the General Fund have been shown at the activity level. The approved budgets of the Township have been adopted at the activity level for the General Fund.

During the year ended March 31, 2006, the Township incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General government			
Legislative	\$ 2,600	\$ 3,024	\$ 424
Supervisor	5,600	6,344	744
Clerk	5,900	6,078	178
Board of review	450	750	300
Treasurer	7,700	9,927	2,227
Assessor	5,300	6,240	940
Hall and grounds	1,000	2,263	1,263
Public safety			
Fire protection	7,500	12,500	5,000
Public works			
Drains	3,000	3,689	689
Health and welfare			
Ambulance	-	1,750	1,750
Other			
Payroll taxes	-	391	391
Pension	4,500	4,549	49

REQUIRED SUPPLEMENTARY INFORMATION

Township of Lebanon

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 62,500	\$ 62,500	\$ 66,624	\$ 4,124
Intergovernmental	37,000	37,000	47,417	10,417
Charges for services	-	-	9,361	9,361
Interest and rents	-	-	1,327	1,327
Other	-	-	435	435
TOTAL REVENUES	99,500	99,500	125,164	25,664
EXPENDITURES				
General government				
Legislative	2,600	2,600	3,024	(424)
Supervisor	5,600	5,600	6,344	(744)
Clerk	5,900	5,900	6,078	(178)
Board of review	450	450	750	(300)
Treasurer	7,700	7,700	9,927	(2,227)
Assessor	5,300	5,300	6,240	(940)
Elections	1,500	1,500	912	588
Hall and grounds	1,000	1,000	2,263	(1,263)
Other	12,100	12,100	3,309	8,791
Total general government	42,150	42,150	38,847	3,303
Public safety				
Fire protection	7,500	7,500	12,500	(5,000)
Public works				
Highways and streets	47,200	47,200	39,748	7,452
Drains	3,000	3,000	3,689	(689)
Total public works	50,200	50,200	43,437	6,763
Health and welfare				
Ambulance	-	-	1,750	(1,750)
Other				
Payroll taxes	-	-	391	(391)
Insurance and bonds	2,700	2,700	2,302	398
Pension	4,500	4,500	4,549	(49)
Total other	7,200	7,200	7,242	(42)
TOTAL EXPENDITURES	107,050	107,050	103,776	3,274
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,550)	(7,550)	21,388	28,938
Fund balance, beginning of year	126,329	126,329	126,329	-0-
Fund balance, end of year	<u>\$ 118,779</u>	<u>\$ 118,779</u>	<u>\$ 147,717</u>	<u>\$ 28,938</u>

Principals

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**COMMUNICATION OF REPORTABLE CONDITIONS, OTHER COMMENTS,
AND RECOMMENDATIONS TO MANAGEMENT AND THE TOWNSHIP BOARD**

To the members of the Township Board
Township of Lebanon
Clinton County, Michigan

Dear Ladies/Gentlemen:

In planning and performing our audit of the financial statements of the Township of Lebanon for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township of Lebanon's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

REPORTABLE CONDITIONS

SEGREGATION OF DUTIES

During our consideration of the Township's internal controls and our assessment of fraud risk, we noted that the Township does not have an adequate overall internal control design. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.). Currently, the same individual accepts cash receipts, records cash receipts, prepares bank deposits, makes bank deposits, and prepares the bank reconciliation.

While this is a common occurrence in small organizations due to the limited number of employees, the Township Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We recommend that the Township review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we recommend the Township Board provide a greater review and supervision of employee functions and procedures.

APPROPRIATE REVIEW OF GENERAL LEDGER REPORTING

During our consideration of the Township's internal controls, we noted that although the Township appropriately adopted an annual budget for the General Fund, it does not appear as though the budgets are periodically compared with actual results, such as through a monthly report that would be approved by the Board and documented in the minutes of the Board meetings. In order to remain in compliance with the Uniform Budgeting and Accounting Act (Act 2 of 1968, Budget Sections as amended) and for the Township's budget to be a meaningful document and useful management tool, management should prepare periodic interim budget vs. actual financial statements for the Township Board to review.

Furthermore, the Uniform Budgeting and Accounting Act requires the Township Board to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

As explained in Note G to the financial statements, various activities within the General Fund of the Township exceeded the amounts appropriated. We recommend that the Township management provide the Board periodic financial reports. We also recommend that the Board review such financial reports preferably on a monthly basis, but at least on a quarterly basis. The financial reports should be generated directly from the Township's general ledger and include fiscal year-to-date revenues and expenditures compared to their budgeted amounts. Management should recommend and the Township Board should provide for budget amendments prior to exceeding amounts appropriated.

RECONCILIATIONS OF BANK ACCOUNTS

During our analysis of cash, we noted that the Township had not prepared formal bank reconciliations throughout the year. Through our audit procedures, we were able to recreate bank reconciliations, documenting any reconciling items (i.e., deposits in transit, outstanding checks, etc.).

The Uniform Accounting Procedures Manual issued by the Department of Treasury contains the basic financial records, documents, and procedures that are applicable to all counties and local units of government in Michigan. That manual states that all bank accounts must be reconciled to the local unit accounting records monthly. The clerk's records must agree with or reconcile to the treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer.

We recommend the Township assure that formal reconciliations are prepared on a monthly basis for all bank accounts and that the reconciliations are retained for audit purposes.

ROAD IMPROVEMENT INVESTMENTS

During our analysis of investments, we noted that the Township's certificate of deposit invested for future road improvements had not been renewed or transferred back to the general account upon maturity. The certificate of deposit originally matured on July 1, 2004. There was no activity for this certificate reflected on the bank confirmation until interest was credited to the certificate on July 21, 2006.

We recommend the Township invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Township.

OTHER COMMENTS AND RECOMMENDATIONS

ADDITIONAL ADMINISTRATIVE POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Township has not formally adopted written procedures and policies for certain areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Township develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We suggest the Township adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Township and detail how the Township would continue to operate in the absence of those critical areas of operation.
- b. Conflict of interest policy - A conflict of interest policy will clarify the Township's position on ethical behavior and communicate that position to employees and Board members. We suggest the Township develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and Board members. The Township should also obtain conflict of interest disclosure statements from its employees and Board members.

ADDITIONAL ADMINISTRATIVE POLICIES AND PROCEDURES - CONTINUED

- c. Fraud prevention policy - A policy on fraud prevention should define the scope of the policy and include a definition of actions constituting fraud and the appropriate procedures to follow when reporting fraud or suspicions of fraud.
- d. Capital asset management policy - We suggest that the Board adopt a policy for the acquisition and disposal of capital assets. The policy should specify the dollar threshold to be used for asset capitalization and that the disposal of capital assets requires formal approval by the Township Board. The policy should also indicate estimated useful lives for each major classification of capital assets. Adoption of the capital asset management policy should be documented in the minutes of the Board meetings.
- e. Investment policy - During the course of our audit and through discussions with management, it was noted that the Township does not currently have an investment policy. Public Act 196 of 1997 amended Public Act 20 of 1943. Included in Public Act 196 was a requirement that every local unit governing body must adopt an investment policy, and that policy is required to address specific matters.

Effective for the year ended March 31, 2006, the Governmental Accounting Standards Board Statement No. 40 requires governmental entities to inform financial statement users about deposit and investment risks that could affect the entity's ability to provide services and meet its obligations as they become due.

We suggest that the Township Board adopt an investment policy as required by Public Act 20 of 1943, as amended. We also suggest the Township consider how the investment policy will address deposit and investment risk. Such policies are required by GASB Statement No. 40 to be disclosed in the notes to the Township's financial statements.

DISBURSEMENTS PROCESS

During our review and analysis of the disbursements process, we noted that the Township does not currently deface invoices as they are paid.

We suggest that the Township consider defacing invoices as they are paid (i.e., stamp "paid", indicating check number and date or attaching the check voucher), so that invoices are not inadvertently paid more than once.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the March 31, 2006 financial statements, and this report does not affect our report on those financial statements dated September 5, 2006. We have not considered the internal controls since the date of our report.

This report is intended solely for the information and use of the Township Board for the Township of Lebanon and management and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these reportable conditions, other comments, and recommendations with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 5, 2006